Firms' Trade Policy Preferences

Are firms' trade policy preferences shaped by the extent of their integration into the international economy? To what degree do the three sets of cases confirm our four hypotheses? This chapter considers the answers to these questions and, in doing so, examines similarities and differences among the cases. Three related points are also developed. First, several other explanations of firms' demand for trade policy are discussed to see how the cases bear shed light on these theories. Second, the logic behind the central argument is evaluated. Do the case studies reveal that rational behavior is the basis for firms' decisions? Again, other interpretations of firms' behavior, focusing on past behavior, ideology, and context, are analyzed. Finally, an explanation of how the micro arguments about firms' preferences provide the basis for a macro argument about the aggregate differences between the 1960s and the 1970s—the initial puzzle—is presented.

INTERDEPENDENCE

Greater interdependence should reduce some firms' interest in protection. Firms with greater export dependence, multinational production, and global interfirm trade should be less protectionist than more domestically oriented firms, even under similar conditions of economic distress. The four hypotheses detailing this argument are reviewed in Table 6.1. These hypotheses link firms' different levels and types of international operations to different trade policy preferences. We may now ask whether the cases in Chapters 3, 4, and 5 support the idea that firms with more extensive ties to the international economy in the 1960s and 1970s, as well as in the United States and France, have less protectionist preferences than do more domestically oriented firms. Because the firms in each case were in economic difficulty and were experiencing the greatest increases in imports among their contemporaries, all of them should have been likely to desire protection. That some did not is surprising. As listed in Table 6.1, the more multinational firms are generally less protectionist, despite their problems.

The first hypothesis (Type I) refers to industries lacking linkages to the international economy. Firms in Type I industries are oriented primarily to the domestic market, since they possess limited export dependence and little multinationality. When experiencing economic difficulty and rising imports, these firms are likely to seek protection. Indeed, such firms are expected to devote increasing amounts of effort to obtain import barriers as their situation worsens, and they are expected to seek global, not selective, protection of their market. They should prefer to reduce all imports, not just those from certain countries or of certain products. This preference is rational, given the extensive dependence of these firms on the domestic market. For them, protectionism is not a costly policy. It benefits them by reducing imports but cannot hurt them by affecting their export or multinational operations, because these are minimal or nonexistent. Industries composed of firms without these international ties should be the most actively and intensely protectionist of all.

Among the American and French cases, four industries can be classified as Type I: the 1960s U.S. woolen goods manufacturers, the 1960s U.S. watch and clock manufacturers, the 1970s U.S. nonrubber footwear manufacturers, and the 1970s French footwear producers. As the case studies document, these four industries exhibited low export dependence and limited multinationality. They were also the most protectionist.

When World War II ended and imports and other difficulties mounted, firms in the U.S. woolen goods industry began lobbying for
Table 6.1 The Industries and Their Preferences

<table>
<thead>
<tr>
<th>Industries, by International Ties</th>
<th>Type</th>
<th>Trade Preferences</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. Woolens (1904)</td>
<td>1</td>
<td>Protection</td>
</tr>
<tr>
<td>U.S. Footwear (1906)</td>
<td>1</td>
<td>Protection</td>
</tr>
<tr>
<td>U.S. Watches and Clocks (1908)</td>
<td>4</td>
<td>Protection</td>
</tr>
<tr>
<td>French Radios and TVs (1905)</td>
<td>4</td>
<td>Selective protection</td>
</tr>
<tr>
<td>U.S. Textile Machinery (1905)</td>
<td>4</td>
<td>Divided, some free trade, some moderate protection</td>
</tr>
<tr>
<td>U.S. Radios and TVS (1906)</td>
<td>4</td>
<td>Divided, some free trade, others selective protection</td>
</tr>
<tr>
<td>French Wines (1906)</td>
<td>4</td>
<td>Divided, selective protection</td>
</tr>
<tr>
<td>U.S. Machine Tools (1906)</td>
<td>4</td>
<td>Free trade, moderate protection in mid-1920s</td>
</tr>
<tr>
<td>French Watches and Clocks (1906)</td>
<td>3</td>
<td>Divided, free trade until 1907, when selective protection favored</td>
</tr>
<tr>
<td>U.S. Furniture (1906)</td>
<td>3</td>
<td>Free trade</td>
</tr>
<tr>
<td>U.S. Newspapers (1906)</td>
<td>3</td>
<td>Free trade</td>
</tr>
<tr>
<td>U.S. Trucks (1906)</td>
<td>3</td>
<td>Free trade, some divisions</td>
</tr>
<tr>
<td>French Pharmaceuticals (1906)</td>
<td>3</td>
<td>Moderate protection, increasing free trade</td>
</tr>
<tr>
<td>U.S. Platinum (1906)</td>
<td>3</td>
<td>Moderate protection, increasing free trade</td>
</tr>
<tr>
<td>U.S. Watches and Clocks (1907)</td>
<td>3</td>
<td>Divided, some moderate, selective protection</td>
</tr>
<tr>
<td>U.S. Semiconductors (1906)</td>
<td>3</td>
<td>Free trade; increasing strategic protection demands in mid-1920s</td>
</tr>
<tr>
<td>French Trucks (1906)</td>
<td>3</td>
<td>Free trade</td>
</tr>
<tr>
<td>French Glass (1906)</td>
<td>3</td>
<td>Free trade</td>
</tr>
</tbody>
</table>

Note: Industries are ranked in terms of increasing international ties. The order is a rough approximation only. It was constructed by adding together each industry's score of export dependence and percentage of foreign investment in 1904 to provide a rough estimate of degree of internationalization. The industries were then ranked in order based on this score. The authors considered the cases suggested more appropriate.

The U.S. watch and clock manufacturers in the 1900s were also banded in these international economic ties. These producers had strong preferences for protection during the decade, especially in the first half. In 1907 they lobbied Congress for stiffer increases in their tariffs and demanded a return to the highest rates ever adopted. They sought to alter their classification to evade the free trade influences of other metal manufacturers. In the mid-1920s, the watch and clock manufacturers followed up their protectionist lobbying of Congress with pressure on the U.S. Tariff Commission. In 1926, after suffering a renewed onslaught of import competition, they demanded further protection. The growth of foreign sales and import assembly operations over the decade, however, moderated the industry's demands and provided some interest in tariff reductions.

Given their lack of strong foreign ties, these domestic producers saw protection as a crucial component in their economic survival. The intensity of their preferences for market closure varied with their economic situation. Desire for protection increased after the two periods (1909-11 and 1925-27) of rapid import growth. Like the woolens industry, they lobbied for all-essential public aid for help. Congress, the Tariff Commission, and the public. The industry began the decade united in its preferences for market closure, with a few exceptions. However, as some firms developed exports and import assembly operations, the consensus for global protection dissolved. Firms involved in these trading operations sought to have their products exempted from the protection by stepping up growth. Growing interdependence within the industry reduced pressures for market closure, an outcome different from the cases of the woolens industry, where such international ties never developed.

American manufacturers' preferences for protection were still within public and business opposition. However, as some firms developed exports and import assembly operations, the consensus for global protection dissolved. Firms involved in these trading operations sought to have their products exempted from the protection by stepping up growth. Growing interdependence within the industry reduced pressures for market closure, an outcome different from the case of the woolens industry, where such international ties never developed.
in the 1970s. Throughout the decade, these producers had limited international ties. After imports surged in the late 1960s, the industry began its campaign for protection. In the early 1970s it filed both an escape clause petition and numerous countervailing duty cases. As new difficulties arose, the industry renewed its protectionist activities, filing more escape clause actions in 1975 and 1976. The industry also lobbied Congress for aid. It sought exemption from the Tokyo Round tariff cuts and inclusion in bills designed to protect the domestic market for textiles. Overall, the industry was united and intensely protectionist in the 1970s. Like the two 1920s cases, its activities to obtain protection increased dramatically as its imports and economic difficulties mounted. Moreover, its lobbying was widespread: all possible political arenas were used to voice its preferences: the ICC, the executive branch, Congress, and the public. The industry’s most preferred outcome was for global protection on all products. Like the 1920s watch and clock manufacturers, however, its unity was weakened in the 1980s as its largest firms developed import-assembly operations and multinational production.

The final Type I industry was French footwear. Among the four cases, this industry was the most divided. The majority of French footwear producers were small and national, lacking international ties. The four largest firms were, however, significant importers and foreign producers. Not surprisingly, the industry was divided in its trade policy preferences. The bulk of producers, organized in the FIE, became protectionist after 1975 when imports surged and exports fell. This group sought protection in the European Community and in France. In the 1980s these producers were opposed by the four large firms, and protection was limited in its scope as a result. Later, when further protection was desired by the majority of producers, this too was limited so as not to interfere with the large firms’ international operations.

The French footwear case confirms the proposition about domestically oriented, Type I industries. Closure of the domestic market was preferred by the majority of firms. The intensity of their demands for protection, varying with the level of imports penetration, rose after 1975 when imports overtook exports. The industry, lobbying both European and French officials as well as taking action on its own, sought protection from all potential sources. Divisions within the industry limited the scope of protection it sought. Global protection was the preference of the bulk of domestic producers, but the trading relations of the largest firms gave them an interest in shielding their trade from any new barriers. The industry compromised and sought selective restraints. Global protection is most desirable only in industries where all of the firms back significant international ties, as in the 1920s U.S. woolen goods industry.

A Type II industry is one with extensive exports but limited multinationality. Such industries should be less protectionist than those in Type I, even when the Type II’s face similar levels of import competition and economic distress. In fact, these export-oriented firms are likely to press for greater market openness, especially abroad. Despite import pressure, these firms are expected to maintain an interest in open markets largely because the costs of protection, due to retaliation or loss of export markets, are greater than its benefits. According to our hypothesis, the three Type II industries among our cases should have similar trade preferences despite their different contexts. In particular, they should be most concerned with increasing the openness of their export markets and secondarily interested in maintaining their home market’s openness. Interest in the latter will increase when linked explicitly to progress in the former. In any case, demands for protection from such industries are expected to be unusual even in times of great economic distress, as long as exports remain significant.

The U.S. manufacturers of textile machinery in the 1920s made up one such export-oriented industry. Though appearing export dependent in the aggregate, these builders were divided in two: the woolen machinery sector had few exports, while the cotton machinery sector had significant exports. This division reduced its capacity to develop a single trade policy preference. In the early 1920s when exports were most significant, the industry was unable to lobby Congress during its tariff hearings. Severe economic distress and rising imports did not drive these producers to embrace protectionism. Rather, the export interests of some firms divided the industry and muted preferences for protection. Over the decade these export interests declined, and so did the interest of these firms in avoiding protectionist demands. In 1930 a group of firms, mainly in woolen machinery, pressed for moderate tariff increases on their machines. Despite being beset by imports, these producers refrained from demanding protection for much of the decade and remained moderate in their later demands.

The U.S. machine tool industry in the 1920s was also export oriented. Export dependence in itself was significant but declining over the decade. These manufacturers lost market share to imports and experienced other economic difficulties; however, they did not resort to demands for protection but instead pressed for help in promoting their exports. In the early 1920s the industry lobbied Congress and
the executive branch for aid to its exports. In particular, the industry looked major foreign markets (such as those of the Soviet Union and the Eastern bloc) to be opened to its exports. The failure of these initiatives, the decline of the industry’s trade, and the increase of imports into the United States eventually pushed the industry to seek aid against imports. After 1978, interest in protection rose. However, it was targeted mainly against one country, Japan, and was fueled by the decline in U.S. exports. Throughout much of the 1970s the industry’s export orientation led it to support trade liberalization both at home and abroad, despite mounting imports. This orientation shifted, however, when the significance of its exports declined, especially relative to that of its import competition.

The French producers of watches and clocks had significant export sales for much of the 1970s. With the advent of electronic watches, however, for which the industry was not prepared, its export dependence began falling and import penetration surged. During the 1970s the industry never demanded protection despite its problems. In fact, in the early part of the decade the industry supported trade liberalization, as is evident in its interest in the GATT tariff reductions and a Swiss-EC trade treaty. Later the industry did seek aid in adjusting through various industrial policy plans, but these efforts had little protective intent. Although beginning in 1980 the industry sought protection, this was primarily against Asian imports of electronic watches, a product the French barely produced, let alone exported. More surprising than this interest in protection was the industry’s lack of such interest in the decade. In the early 1970s, when its trade dependence was rising, the industry pushed for free trade both at the national and EC level. Even in the late 1970s, when its difficulties and imports mounted, the watch and clock producers resisted the temptation to demand protection and sought rather to foster adjustment to the new competitive situation. Only when the importance of exports declined, especially relative to that of imports, did their interest in protectionism grow.

These three cases demonstrate the importance of export dependence as a barrier against protection. In each, when export dependence was rising and/ or strongest for the industry, interest in protection was insignificant despite surging imports. Indeed, trade liberalization was preferred at this time. These export-oriented industries were distinct in their trade preferences from the more domestically oriented, Type I industries. The similar competitive difficulties of the two sets of industries prompted divergent preferences as a result of other differences to the international economy.

In each case, however, these industries eventually sought some protection. Declining export dependence coupled with rapidly rising import penetration unhinged these firms’ resistance to protection. In all three cases, when import penetration rose above export dependence—i.e., when imports overtook exports as a percent of domestic production—protection became more desirable. This shift in preferences occurred as the the export constraint declined. This finding suggests two caveats for the argument. First, export dependence may not lead to stable, long-run preferences for freer trade. Exports in themselves may be unstable and when they decline shifts in firms’ preferences are expected. Even if exports are stable, moreover, rapidly surging imports may turn firms’ attention from their export interests to their import problems. Export dependence may thus operate only at a high “threshold.” Where export dependence is high and increasing, especially relative to import penetration, firms will be more likely to resist the temptation to demand protection in times of economic distress.

A third type of industry involves those with significant export dependence and stable, integrated multinational operations. Because they are the most integrated into the international economy, however, Type III industries are expected to be the least protective, since the costs of protection are very high for them. These firms should show a durable interest in continued openness, or further opening, of the home market, as well as a secondary interest in the maintenance of openness in foreign markets even in the face of rising imports and other difficulties. Once again, the preferences of these firms should appear more similar to one another, despite their different contexts, than to other types of firms.

Among the six cases of Type III industries, two are from the 1980s: the fertilizer producers and the photographic equipment manufacturers. The U.S. fertilizer producers were highly export dependent and multinational by the early 1980s. They proved to be very free trade oriented despite their economic problems. In the 1982 tariff hearings they requested the retention of the duty-free status of their products. In the 1984 hearings this preference still prevailed, although strategic considerations were introduced. Certain producers demanded protection on some goods unless they could receive tariff reductions on others. This strategy was aimed at, and resulted in, greater openness of the home market, since no new tariffs were enacted and several were reduced. Throughout the decade the major producers, those with the largest international operations, opposed the attempts of some small domestic producers to have tariffs on various products im-
created. In general, the fertilizer manufacturers were more interested in preserving their home market's openness than in erecting new barriers, despite mounting import competition.

The U.S. photographic equipment industry in the 1970s was also an important exporter with growing international production. This industry, dominated by the Eastman Kodak Company, was initially divided on the tariff issue. The few small domestic producers desired greatly increased tariffs on cameras and film, while Kodak in 1971 sought only moderate increases. Kodak's interest in even minor increases appears somewhat unexpected, but two factors help explain it. First, at this time Kodak had no foreign operations and a declining export position. Its foreign ties were not strong enough to outweigh the temptations of protection. Second, these temptations were all the greater since Kodak was a monopolist at home. Closing the domestic market would effectively eliminate all of Kodak's competition, which consisted chiefly of imports. By 1974 Kodak's position had changed. Its foreign operations were now more developed. Not surprisingly, Kodak began advocating tariff reductions on the products it traded most actively—in films. Although still seeking protection for certain products in order to retain its monopoly position, the firm altered its policy preferences on those goods for which its foreign trade and production operations were more developed.

In the 1970s, the U.S. semiconductor industry had substantial export dependence and integrated multinational operations. Firms in this industry favored trade liberalization throughout much of the decade. In the late 1960s a split developed: the largest and most international firms retained the industry's original preferences, but some smaller firms organized to demand action against Japan's unfair trade practices. In time the largest firms were able to convince the smaller ones that further trade liberalization both at home and abroad was the best strategy. Using the threat of a future trade petition, the industry then pressed both the U.S. government and the Japanese government and firms to agree to negotiations to reduce tariff and nontariff barriers in the semiconductor market. The U.S. firms were thus most interested in enhancing market openness, despite mounting import problems. The threat of petitioning for relief against Japanese imports was a strategic maneuver designed to improve U.S. access to Japan's market, but this approach was diluted by the largest, most multinational firms. The industry's later petitions against the Japanese were also strategic, designed more to open the Japanese market than to close the U.S. one.

Three of the French cases fall into this category of highly interna-

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The French pharmaceutical industry was by the 1970s much engaged in exporting, multinational production, and intrafirm trading operations, especially within Europe. Despite rising import penetration and severe economic difficulties, this industry never sought protection. In fact, the producers made efforts throughout the decade to reduce trade barriers. They worked to dismantle and/or reduce nontariff barriers (price controls and regulations regarding drug introduction and testing) in France. The industry also actively encouraged European efforts to harmonize drug procedures and standards within the Community, thus facilitating trade. And, rather than rely upon government aid or policy, the pharmaceutical manufacturers pursued their own strategies to maintain and enhance their competitiveness. These French producers responded to their problems not by seeking to close their home market but by acting to promote trade liberalization and their competitiveness.

The French glass industry in the 1970s also was export dependent and multinational. Like other industries of this type, it did not show any interest in protectionism despite rising foreign competition. The industry did not appeal to either the French government or the EC for help. Indeed, it supported the Tokyo Round tariff reductions and sought to keep American glass producers from closing their market. Like the pharmaceutical industry, it was little interested in government aid and chose to adjust to the new international competitive situation on its own. Internal adjustment and continued support of an open trading system were the hallmarks of the glass producers' responses to their economic difficulties.

Another highly international industry in France was the tire manufacturers, which involved primarily one firm, Michelin. By the 1970s Michelin was a large exporter with production and trading operations throughout the world. This firm's response to the difficulties of the decade did not involve seeking protection or government aid. Nor did it seek protection at the European level, where the industry in general and Michelin in particular supported the trade liberalizing measures of the GATT negotiations. Much like the pharmaceutical and glass manufacturers, Michelin sought to adjust through its own internal strategies and continued to support the liberal international trading system. Raising foreign competition, then, did not prompt a protectionist response from the internationally oriented French tire producers. The six cases that are classified as Type II, highly export dependent and multinational, fit the argument quite well. In each case, except perhaps for Kodak, the firms did not respond to rising import com-
position by demanding protection. Quite often, their response was to seek further openness of their markets. Two other features common to these cases should be noted. First, in a number of cases, strategic behavior by firms, involving threats to close the home market if markets abroad were not further opened, was evident. The fertilizer and semiconductor cases are two examples. These multinational firms were not merely rational actors reacting to their environment; they were strategic game players, seeking to shape that environment. Second, these firms had a number of opinions for responding to economic difficulties. Political action in the form of demands for aid or protection did not need to be the first response. Many firms never entered the political arena. Instead they adjusted through their own internal strategies, as in the three French industries. This option was probably more significant for large, international firms than for small, domestic ones, since the former could more easily expand and reshape their international operations to take advantage of the industry's new global situation. In any case, the firms with extensive exports and multinational production were purposeful, strategic actors intent on remaining a part of the international system, rather than reactive agents who preferred the security of a tightly sealed domestic market.

The fourth type of case involves firms with little export activity but substantial foreign production. Unlike Type III firms, these firms, Types IVs, use foreign production almost entirely to service the host market and tend to be integrated international operations. Because of the disintegrated character of their production, these firms have less interest in the global trading system than do Types II and III. But these firms are likely to be less protectionist than Type IIs. In particular, these multinationals will, if they show any interest in protection, desire selective protection, directed specifically against particular countries and/or products. It will be limited protection, designed to avoid disrupting the industry's international operations but to deal with the more threatening foreign competition.

Among the five industries in this category, one was the 1970s U.S. newspaper manufacturers. Firms in this industry were multinational but only minor exporters. Their foreign operations were concentrated in Canada, where they exported a great deal to the United States. This industry thus did pass a substantial amount of international intrafirm trade, and hence it was more like a Type III industry. Throughout the 1970s the newspaper producers supported free trade in their product. In neither 1970 nor 1979 did they try to have the duty-free status of newspaper altered. The U.S. newspaper producers, despite rising imports, never sought protection in the 1970s. Much like Type III firms, they were active players in the international system and perceived its openness to be in their interest. For these firms, even selective protection was not desired, since they did possess substantial world-trading operations and integrated global production. In such conditions protection was not desirable.

In the 1980s, three American cases fit into this fourth category. The U.S. tire producers were large multinationals with few U.S. exports. Only the largest firm, Goodyear, was a highly integrated global producer. This difference produced a split within the industry. Goodyear versus the rest of the firms. The industry for the most part remained in favor of a free trade system throughout the decade. Several diversions from this general orientation occurred, however. In the early 1970s, when imports first surged, the industry began a countervailing duty case against its most threatening rival, Michelin. Goodyear did not support this case, but it was filed and decided in the U.S. Industry's favor. Goodyear and Michelin later took action to have it halted and were successful. In the late 1970s, as Asian imports rose, some tire manufacturers again filed petitions on particular products against specific countries. Considering the industry's serious problems, these were restrained actions. These attempts at selective protection were combined with internal activity to adjust to the new international environment. The smaller, less international U.S. tire makers chose internal adjustment and selective protection, while the global giant, Goodyear, preferred a response without recourse to any protection.

The U.S. watch and clock industry was also composed of several large multinationals, who had limited trading operations. This industry underwent major changes in the 1970s as new electronic watches were introduced and rapidly took over the market. The traditional manufacturers' response to this was to seek protection against the new products, and they lobbied both the executive branch and Congress for help. This selective protection was opposed, however, by the stable group of U.S. importers/assemblees. It was opposed also by the semiconductor firms who had developed electronic watch production. The failure of the conventional producers' efforts to obtain selective protection led them to adjust on their own by increasing their imports and foreign operations. After this, explicit pressure for protection was reduced. Like other industries in this category, the watch producers chose a strategy of selective protection combined with internal adjustment. Global protection was not desired, because this would have upset the firms' other trading and production operations.

The U.S. radio and television industry was fairly multinational, with limited exports. Like the tire industry, it was also divided. Its largest
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Firm, RCA, had a well-developed network of international production and trade, while the others were much more domestically oriented. This latter group responded to rising import pressures by waging a continuous battle against certain imports. Led by Zenith, these firms filed a large number of trade petitions against Japanese television imports, beginning in 1961. These actions were opposed by RCA, who feared their impact on its own foreign operations. When protection was granted, it was selective, directed against several countries and specific products in order to avoid hurting RCA's and other U.S. producers in similar production offshore-assembly and import operations. In time, the industry also pursued its own internal adjustment strategies, which by the 1980s led into radio or television production in the United States and hence into the market.

The French radio and television industry became multinational in the 1970s, but it never developed substantial export operations. The French industry, composed of Thomson-Bouygues and several foreign multinationals, had long been a sheltered domestic one—a Type III industry. Preferences for protection against Japanese imports developed early and were retained throughout the 1970s. This selective protection against the Japanese was combined, however, with attempts to open the French market. As Thomson developed production operations in Europe, it increasingly sought a more integrated European market. This was best accomplished by reducing barriers to the French market while erecting barriers to Japanese production at the European level. Thomson increasingly pursued this strategy as the European character of its operations grew. Again, the firm sought selective protection in addition to making its own internal adjustments to the heightened competition it faced.

Industries with substantial foreign production but limited exports revealed preferences for selective protection. In fact, their behavior was a cross between that of purely domestic firms (Type I) and highly international ones (Type III). These firms pursued their own adjustments strategies, but less actively than Type III. To compensate and preserve their international operations, they sought selective protection against their most threatening competition. A combination of resisting adjustment through protection and attempting to adjust internally characterized this behavior. The more like Type III firms they were, the more emphasis they placed on adjustment in contrast to protection. For instance, the 1960s newsprint firms, Goodyear, and RCA were firms with substantial global trade and production activities. These firms did not favor even selective protection, which distinguishes them from the other Type IV cases, who had smaller international operations.

The trade policy preferences of foreign multinationals operating abroad are also part of our argument. The preferences of these foreign subsidiaries depend on whether the subsidiary is part of a Type III or Type IV firm. If the subsidiary services only the domestic host market and is built originally to circumvent trade barriers in that market, the subsidiary will have little interest in reducing those barriers. As part of a Type IV firm, the foreign enterprise will desire at least the maintenance of barriers and perhaps even their elevation in times of raising import penetration. On the other hand, if the operation is part of a parent's global production and trade network, then the subsidiary is unlikely to seek further protection and may want existing barriers reduced. In this case, as part of a Type III firm, the foreign subsidiary should prefer freer trade, much like its parent.

The trade preferences of a variety of the foreign subsidiaries evident in the cases support this argument. In the 1960s, for instance, the British textile machinery firms located in the United States were the spearheads of the British manufacturers' export drive into America. As part of this export strategy, these subsidiaries were sighted integrated into a global trading network run by their parent firms, whose interests were served by an open American market. These subsidiaries not only were ardent opponents of protection but also sought tariff reductions in the United States. Similar to this case were the Japanese and European subsidiaries in the U.S. fer, semiconductor, and radio and television industries. More of these subsidiaries acted as part of their parent firms' global trade and production networks. Although they serviced mainly the U.S. market, the subsidiaries provided both subsidies and complements for their parents' exporting activities. As part of their parent's global strategy, these firms generally opposed new protection in the United States, especially any targeted against them. Their interest in the reduction of barriers was less apparent. Once in the United States, they may not have become active free traders; nonetheless, they did become active opponents of further protectionism.

Among the French cases, the preferences of foreign subsidiaries were more complicated. The subsidiaries that were developed before the 1970s—in watches and clocks and radios and televisions—

were intended to service the closed French market. Firms such as
Thomson-Brandt and Radiotechnique were not a part of their parent's
global trading operations; they produced primarily for the protected
French market and to a large extent from import competition in the 1970s
with little or no help. The aid they sought, however, was in the form
of industrial policy and not tariff protection. They wanted subsidies from
the government but were not vocal proponents of further protection,
although they probably did not actively oppose it. On the other hand,
subsidiaries developed in the 1970s were different from those began
earlier. In part these subsidiaries were developed less to service the
French market than to augment their parent's international opera-
tions. In industries like tires, glass, and pharmaceuticals, these new
foreign entrants behaved more like Type III firms. They tended to be
vocal opponents of any new protection and were silent partners in
steps toward trade liberalization, especially within Europe.

Overall, the preferences of these foreign firms varied, depending
on their role in their parent firm's strategies. The less integrated into
a global trading network and the more the like a purely domestic
firm they were, the more protectionist the foreign subsidiary
appeared. When part of a globally integrated multinational, these sub-
ordinates will be more free-trade oriented. The behavior of these for-
ign subsidiary confirms our arguments about Type III and IV firms.

OTHER EXPLANATIONS

How do the case studies shed light on other explanations of firms'
trade policy preferences? Although the preferences of industries have
been less studied than other factors affecting trade policy outcomes,
several different explanations do exist. These have focused on pre-
ducing firms' demands for protection, much less has been written
about firms' preferences for further trade liberalization. Despite
these limitations, the cases here provide new evidence for these other
theories.

* Although little is known about the amount of influence foreign subsidiaries have on
trade policy outcomes in developed countries, it is likely that the more they resemble a
domestic firm the greater their influence will be. This assumption will enhance their
legitimacy within the policy process. However, it will make their preferences more like
domestic firms more protectionist than their multinational counterparts high pro-
ductivity.

* For a summary of this literature, see chapter 6, note 1. Only export dependence is
explicitly used to explain subsidiaries' pressures and outcomes.

In part, firms' preferences for protection have been accounted for
by their competitive position. That is, indicators of competitive disad-
vantage have been used to predict protectionist demands. One fac-
this is the link between essential unskilled labor and intensive industry; in a developed country, the
disadvantaged is it and the more likely it is to seek protection.
The cases here support this argument in a different way. The most labor-
-intensive industries among the cases were usually domestically ori-
ented, Type I industries, and hence ones opposing protection. The cases
also suggest that the movement of labor-intensive segments of
firms' production abroad can enhance firms willingness to resist pro-
tection. As this movement further internationalizes these operations, it
thereby increases the costs of protection. Examples of this abound:
the U.S. semiconductor producers, U.S. and French watch and clock
manufacturers, U.S. and French radio and television producers, and
U.S. newspaper firms. This migration of labor-intensive production
abroad has been an important source of internationalization of pro-
duction occurring in the past several decades. It has also been a major
reason for the growing divergence between the trade preferences of
the labor unions and multinationals in developed countries.

Other explanations of industry's preferences on trade focus on the
characteristics that enhance the rents obtained from trade investors.
This line of inquiry has pointed to the degree of industry concentra-
tion—as a proxy for its monopoly power—as a determinant of protec-
tionist demand. One economist explains:

Ceteris paribus, monopolistic industries can be expected to have a
relatively larger stake in tariffs than competitive industries since the
latter can enjoy only ephemeral excess quasi-rents before increased
investment by the industry and the consequent expansion of supply
sends excess capital returns back to zero. Certainly industries which also enjoy monopoly rents are in a better position to exploit
the advantages of tariff protection and could be expected, there-
fore, to lobby relatively intensely.²

² E.g., Coles, "Economic Models of Political Choice;" Baldwin and Anderson, "Political
Markets and Protection in Industrial Countries;" Ray, "Determinants of Tariff and Non-
tariff Trade Restraints in the U.S.," R. Baldwin, Political Economy of U.S. Import Polices,
³ Anne Krueger, "Political Economy of the Rent-Seeking Society," American Economic
Review 69 (1978): 193–203; Brook and Maggur, "Economics of Special Interest Politics,"
⁴ Lavergne, Political Economy of U.S. Tariffs, p. 98.
influence firms' future trade preferences. In general, past protection is expected to have a consistent, positive effect on future demands. The logic behind this argument is that "highly protected industries are likely to make more extensive efforts to protect their domestic markets." The design provides a consistent, consistent pattern for future demands for protection. In some high levels of protection did not seem to influence industries' past preferences. For example, as a result of a recent study, the U.S. woolen industry in the 1970s, the U.S. footwear industry, and the French radio and television producers in the 1970s all had relatively high levels of duty protection prior to the 1970s. During much of that decade, however, these industries favored tariff reductions. For other industries, past protection did engender further similar demands. For instance, the U.S. woolen industry in the 1970s, the U.S. footwear industry, and the French radio and television producers in the 1970s all had relatively high levels of protection before the period examined and remained protected throughout it. In these cases, past protection appeared unsuccessful. That is, the industry's problems continued and/or intensified. This unsuccessful past protection, then, led to demands for new protection. A more nuanced argument relates the success or failure of past protection to later industry preferences. If protectionism fails to raise profits for a domestic industry, then, ceteris paribus, firms will
null

null
identifies. Is it fear of foreign retaliation and the other economic costs involved in disrupting a firm’s international trade networks that provoke resistance to protection?

In general, the cases provide affirmative answers to these questions. Firms assessed their situations to understand the costs and benefits of different courses of action and eventually chose the course that appeared least costly. Concerns about foreign retaliation and other costs of protection were often expressed by export-oriented and multinational firms in deciding to resist protection. Other factors, however, also affected firms’ decision making.

Scholars have suggested two arguments why rational behavior may not prevail. First, rationality may be outweighed by context. That is, ingrained habits, traditional ways of doing things, and standard operating procedures may exert more influence on firms than do their calculations of the costs and benefits of different courses of action. This implies, for instance, a greater willingness on the part of 1970s firms to opt for protection, since historically protection had been high, than on the part of 1970s firms, many of whose recent history involved trade liberalization. But the cases challenge this claim, because industries with similar levels of international ties in the 1930s and 1970s behaved similarly. The logic of their international position transcended their particular habits and traditions.

Context is not unimportant, of course, and helps account for other behavior. For instance, since exporting behavior was new for many American firms after World War I, this may explain why these exports did not exercise as constraining an effect on protection as expected. The 1970s textile machinery industry is an example. Before the war, the firms in this industry had few exports and were dominated by British and German producers. When their exports rose after World War I, the U.S. firms lacked confidence in their ability to sustain this foreign trade when the Europeans eventually revived their industry. The U.S. firms did not become ardently protectionist. But without confidence in their export capacity, the U.S. textile machinery producers saw little to be gained from promoting exports and, as European imports surged, more to be gained from maintaining protection of the home market. In this case, the historical context of the industry influenced its trade preferences. This context, nonetheless, was not


pletely determining. The industry never wanted to return to the high levels of protection accorded it before the war. The industry’s new export dependence did influence its behavior and limit the effects of its historical position. Context can affect an industry’s perceptions of its preferences, but it may not invalidate the influence exerted by firms’ international positions.

Ideological motives, rather than rational calculations, may also be more important in understanding firms’ behavior. In particular, firms in the 1970s, existing after the era of the Great Depression, might have been ideologically more opposed to demanding protection, because they had imbued the historical lesson that protection led to depression. If this were true, and if we controlled for import penetration levels and international ties, firms in the 1970s should have been less likely to demand protection. This does not appear to have been the case. For example, highly import-penetrated industries without international ties in both periods, such as U.S. wood in the 1920s and U.S. footwear in the 1970s, were both ardent global protectionists. Moreover, direct evidence of such ideological behavior is lacking. Firms and industry associations rarely, if ever, pointed to the problems of the 1920s and 1930s as a reason for resisting protection. Rather, the firm’s immediate trading situation and foreign operations were most cited. These findings do not invalidate arguments about ideology. They simply suggest that firms also attempt rational analyses of their situations when defining their preferences.

Ideology may actually bolster the rational behavior of firms. For instance, the experience of the Great Depression has made contemporary firms with strong international ties more able to understand the potentially devastating effects of protection on their global operations and that has enhanced their capacity to make rational decisions about their trade preferences. The cases do not contradict an interpretation
costs than outright protection may be available in some cases. The likelihood that a firm will opt for these substitutes depends generally on their availability and expected stringency. One difference between French and American firms’ behavior may lie in the greater availability of such substitutes in France than in the United States. It has been maintained that the wide array of French industrial policy instruments acts as a substitute for protectionist policies. Some of the cases support this. In the French footwear and watch and clock cases, firms attempted to obtain government aid as their imports and difficulties mounted. But the cases also demonstrate that industrial policy is frequently not an effective substitute for protection. In both of these cases, the industrial policies adopted had little effect on imports. Imports continued to surge after these policies were implemented, and the industries were driven to seek outright protection. As the French cases generally demonstrated, an industrial policy that had protectionist elements was rarely successful without actual protection. The French cases suggest demands for industrial policy may be less costly for firms initially; once they fail to address the problem, however, other options, especially protection, will be considered.

Firms that appear to define their trade preferences rationally. Historical context and ideological atmosphere may influence them, but these factors do not outweigh cost-benefit calculations. In fact, the costs of protection, especially relative to other options, are of major importance in determining internationally oriented firms from seeking protection in times of economic distress.

The Historical Puzzle

Why did the 1970s see less protection than the 1920s, despite the comparable levels of economic distress and declining hegemony that characterized both? Our answer to this puzzle can now be given. Firms more integrated into the international economy are less protectionist than domestically oriented ones under similar conditions of economic difficulty. On a macro level, this implies that in periods when such international ties are more prevalent, demands for protection throughout the economy will be less. Much higher levels of such ties, almost ten times greater, in fact, were apparent in the 1920s than in the 1970s (see table 6.3). In the 1970s, therefore, many more firms

\[\text{(This contrasts with the argument of Michael Power and Charles Sabel in The Second Industrial Divide: Possibilities for Prosperity (New York: Basic Books, 1986), esp. chs. 3, 8, where they maintain that small firms with flexible production techniques may be the most adaptable to the uncertain, competitive economic environment of today. They note that large firms may develop flexible specialization, but they seem to think this is much more likely in small firms; see also pp. 8–9.)}\]
Table 6.3 Average U.S. International Economic Ties, 1940s and 1970s

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<th>1940s</th>
<th>1970s</th>
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<td>U.S. Industrial Export Dependence</td>
<td>21.1% (1940)</td>
<td>22.8% (1973)</td>
</tr>
<tr>
<td>U.S. Manufacturing Multinationality</td>
<td>14.0% (1940)</td>
<td>18.8% (1973)</td>
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expansion of these ties was more widespread than in the 1940s. This reduced demand provided a partial answer to the central puzzle. Moreover, it suggests that arguments that examine the "supply" of protection should also look closely at demand, since claims that reduced "supply" are less interesting if less protection is also initially being demanded. The 1970s were thus less protectionist than expected, given the decade's high levels of import penetration, because the demand for such protection was muted by industry's heightened international interdependence.

Although I have argued that the growth of international ties contributed to the maintenance of the trade in the 1950s and early 1960s, it must be noted that this internationalization of U.S. industry was found in link with trade liberalization in the postwar period. Clearly, the liberalization of trade in the 1950s and 1960s was one factor promoting the growth of these international ties. But much of this expansion occurred before the two most significant reductions in trade barriers—those negotiated in the Kennedy and Tokyo Rounds. U.S. export dependence and especially U.S. multinationality grew significantly before the phasing in of the Kennedy Round tariff cut in the early 1960s. U.S. industrial export dependence rose 35 percent between 1950 and 1960, and the value of U.S. direct foreign investment in manufacturing increased nearly 800 percent between 1950 and 1960. The growth of these international ties cannot be separated from the liberalization of trade occurring at the same time. But the expansion of these ties prior to the 1970s suggests that forces for trade liberalization—e.g., industries with international ties—were in place before the 1970s and were factors in the liberalization that occurred during that decade. The growth of international ties means that the 1970s many more firms were more willing to resist protection.